

CHAPTER V LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

A. BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES

RANK	CODE	TITLE
1.	ELC	Electronic Components
2.	CSF	Computer Software
3.	MED	Medical Equipment and Devices
4.	TRA	Travel and Tourism
5.	CPT	Computers and Computer Peripherals
6.	DRG	Pharmaceuticals
7.	FOD	Health Foods Centering on Dietary Supplements
8.	TEL	Telecommunications Equipment
9.	BLD	Building Products
10.	AUT	Automobiles
11.	MFI	Marine Products
12.	APS	Auto Parts & Accessories
12.	ELP	Electrical Power Equipment
14.	ACE	Official Development Assistance
15.	POL	Pollution Control Equipment and Services
16.	APP	Apparel
17.	ACE	Architectural/Construction/Engineering Services
18.	BLD	Plumbing Products/Food Disposers
19.	FUR	SOHO (Small Office/Home Office) Products and Services
20.	MED	High Technology Home Healthcare Equipment Market

20.	MTL	Machine Tools
22.	SPT	Sporting Goods
23.	TXP	Textile Products
24.	HCG,GCG,FUR	Home Fashion
25.	FOD	Food Processing Machinery
26.	BLD	Flat Glass
n/a	TES	Telecommunication Services
n/a	EDS	Education/Training Services
n/a	FLM	Broadband Services including Cable TV Services

Note: The Yen/Dollar exchange rates used to calculate dollar figures for the best prospects for non-agricultural goods and services were: 131 yen in 1998, 114 yen in 1999 and 107 yen in 2000.

1. Electronic Components (ELC)

The Japanese electronics components market is the world's second largest and one of the most attractive for U.S. suppliers. The most promising subsector is semiconductors, which accounts for 70% of the total Japanese electronic components market. Total market demand for electronic components in Japan is expected to grow 12% annually through 2002. Much of the new demand for electronic components will be for semiconductors and liquid crystal display panels. The market for passive electronic components excluding semiconductors is expected to show steady growth only in selected consumer electronics and industrial applications.

The market for U.S. application-specific semiconductors in the PC, computer-peripheral, multimedia, computer networking, and telecom subsectors is growing rapidly. The continued expansion of communications networks and the Internet will provide broad product growth for all chip sectors including digital signal processors, standard cells, DRAMs, microprocessors, flash, telecom and mixed-signals. However, continued market access efforts by both U.S. suppliers and Japanese semiconductor users are essential. The Japanese semiconductor market is an area in which the U.S. Government monitors market access for foreign and U.S. semiconductor products. The current U.S. market share in the Japanese semiconductor market is approximately 30% (total foreign semiconductor share was 34% in the 4th quarter of 1998). The Japanese semiconductor market is expected to grow 13-15% annually. Major local competitors include NEC, Hitachi, Fujitsu, Toshiba, Matsushita, Mitsubishi, Sony, Sharp, Sanyo, Oki, Epson, and ROHM.

(Millions of U.S. dollars)

	1998	1999	2000
A. Total market size	33,483	45,493	52,300
B. Total local production	72,030	87,828	96,500
C. Total exports	62,454	70,421	78,600
D. Total imports	23,907	28,086	34,400
E. Imports from the U.S.	9,100	11,170	13,700

Notes: The above statistics are unofficial US&FCS estimates. Import figures from the U.S. include Japanese semiconductor companies' import products which were made in the U.S.

2. Computer Software (CSF)

The Japanese computer software market has been growing rapidly, in step with the rapid growth of the domestic PC market, growth in open systems, and the rise of large-scale computer networking. Japan's domestic software industry is very modest, with most software still oriented around mainframe or proprietary technologies. The vast majority of imported software in Japan is U.S.-origin, particularly in the PC market. All major U.S. independent software suppliers such as Microsoft, Lotus, Oracle, Novell, Informix, Symantec and Netscape have made strong inroads into the Japanese market.

Demand for ready-made software, such as application software packages, is expected to grow steadily. In particular, strong demand for PC software products for Internet applications is expected to continue for at least the next three years. The number of Internet users in 1999 was 20 million and is expected to double by 2002. PC software now accounts for approximately 40% of the entire software market. Demand for customized software for large and mid-range computers and workstations is expected to experience slow growth of 5-7% annually through 2002. By comparison, packaged software, including application software, will show annual growth of over 20% during this period. The total market is expected to grow steadily, approximately 10-12% annually over the next five years. The most promising subsector of computer software is PC packaged software and CD-ROM software including Internet applications.

(Millions of U.S. dollars)

	1998	1999	2000
A. Total market size	11,200	12,370	13,750
B. Total local production	8,110	7,950	7,900

C. Total exports	1,230	1,100	1,050
D. Total imports	4,320	5,520	6,900
E. Imports from the U.S.	3,270	4,050	4,900

Notes: 1) Excludes software service market. 2) Total exports include game software from Japan.
3) The above statistics are unofficial US&FCS estimates.

3. Medical Equipment and Devices (MED)

The medical equipment sector represents one of the most successful markets for American companies in Japan. Second only to the United States in size, Japan's medical device sector is one of the few areas in which the U.S. has consistently maintained a substantial trade surplus with Japan, typically exceeding \$1 billion annually. American firms hold a dominant position in the Japanese market among foreign producers, accounting for two-thirds of all imports. The U.S. share of the overall Japanese medical device market has increased from 20% in the early 1990s to one-quarter of the market presently. American firms accounted for roughly \$4.5 billion of Japan's \$18 billion device market in 1999.

Increased sales of U.S. medical devices in recent years can be largely attributed to rapid technological innovation within the industry. Deregulation measures undertaken by the Japanese Government, and strongly encouraged by the United States, have also contributed to growth in sales of internationally competitive medical devices. Although substantial barriers to the timely introduction of new medical technologies into Japan remain, a number of policy modifications recently implemented by Japan's Ministry of Health and Welfare (MHW) have eased some market entry hurdles. These steps included an expansion in the number of products for which foreign clinical data is accepted in the product approval process, which has been a key concern of U.S. industry.

Overall, Japan's market for medical devices is expected to exhibit slow growth in 2001. This is attributable primarily to government efforts to control healthcare spending. While a strong emphasis on cost containment will continue for the foreseeable future, this will be counter-balanced by the needs of Japan's rapidly aging population and the construction of a large number of new facilities for nursing home care and assisted living. Areas of projected stronger demand include products used in providing home health care services and medical information systems for telemedicine. American firms will also continue to see bright sales prospects in areas they currently dominate. This will remain especially true in the more technologically sophisticated product categories such as pacemakers, advanced interventional cardiology products, artificial implants and digital imaging equipment.

Still, there are signs that demand, even for the most advanced medical devices, may be tempered by Japanese Governments efforts to control healthcare expenditures. The impact of these cost cutting efforts are evidenced in recent policy initiatives taken with regard to several categories of innovative medical devices. Every two years, the Ministry of Health and Welfare

revises the reimbursement prices for medical devices and products covered under the national health insurance system. During the most recent biennial price revision, undertaken in April 2000, an average price reduction of 4.5% was implemented for three major product categories (arterial (PTCA) catheters, pacemakers and orthopedic implants), where U.S. firms hold roughly 75% of the market. In October 2000, Japan will implement changes to the system by which these three categories of medical devices are priced. American firms are concerned that the new system will discourage product innovation by pricing devices incorporating incremental, but medically significant changes, at the same level as older, less sophisticated technology.

On a more positive note, market demand for some imported durable medical equipment may benefit as a result of a recent change in rules affecting purchases by municipal governments. For procurements funded by the central government, local governments in Japan now possess the authority to utilize the Overall Greatest Value Method (OGVM). This allows procurement decisions to be made based upon selecting the medical equipment that provides the best overall value. Previously, procurement rules required selection of the lowest cost supplier meeting the bid specifications. Given their market leadership in developing the most sophisticated medical devices, where higher initial product costs are often offset by long-term cost savings, American firms should be key beneficiaries of this change.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	15,400	18,300	20,100
B. Total local production	11,500	13,700	15,000
C. Total exports	2,500	3,000	3,300
D. Total imports	6,400	7,600	8,400
E. Imports from the U.S.	4,000	4,200	5,000

Note: The above statistics are unofficial estimates.

4. Travel and Tourism (TRA)

In 1999, the number of Japanese outbound travelers was 16.4 million. The U.S. is the number one destination for outbound Japanese travelers, which receives almost one-third, or 4.83 million, of all such travelers. Japan ranked third after Canada and Mexico in number of travelers to the United States. The top three overseas destinations for the Japanese outbound traveler in 1999 were, in descending order, the United States, Korea and China. Europe is a strong competitor in terms of long distance destinations. The total market for Japan's international travel and transport to the U.S. was \$13.6 billion, the largest of any single country. With a modest recovery of the Japanese economy, the number of Japanese travelers to America is expected to gradually increase in 2000.

Currently Japanese travel companies face a serious challenge in maintaining their businesses in the face of a dynamic business environment characterized by economic recession, fierce price competition, changing travel styles of Japanese tourists, and the marketing of travel products over the Internet. With a flood of travel-related information products on the Internet, Japanese travelers have become very sophisticated consumers, with a wide range of expectations for their travel. In addition to the serving popular destinations such as the theme parks of California and Florida, cosmopolitan cities and Hawaii and Guam, Japanese travel companies are required to create innovative travel products in order to keep up with changing demand by their customers. In this environment, Japanese travel companies are more flexible and eager to seek and keep good business relationships with U.S. travel suppliers.

The travel segments which are growing rapidly are wedding/honeymoon couples, middle-aged and elderly people, family travel (couples with young children) and FIT (free independent travel). Overseas school trips for junior high and high school students also have a high potential.

(Millions of U.S. Dollars)

	1998	1999	2000
Total outbound market	35,250	40,943	45,803
Outbound to the U.S.	13,762	13,623	14,304

(Millions)

Number of outbound travelers	15.8	16.4	17.2
Number of outbound travelers to U.S.	4.89	4.83	5.07

(The above statistics are unofficial estimates.)

5. Computers and Computer Peripherals (CPT)

Japan is the second largest market in the world for information technology products and services after the United States. The Japanese IT industry has grown remarkably over the last decade despite an overall stagnant Japanese economy. Total market demand for all computers in Japan is expected to grow approximately 12% annually through 2002. While demand for large mainframe computers is slowly declining, that for mid-range computers and workstation systems and servers -- including web-servers and database-servers -- is growing rapidly.

Personal computers and PC peripherals have been key drivers and now comprise one of the largest industries in the Japanese economy. Demand for PC's, PC servers, and PC peripherals grew approximately 15 percent annually in each of the last five years, and PC shipments in Japan reached 10 million units in 1999. Japan's PC boom has been, and will continue to be, driven by strong demand for the Internet by both corporate and individual

consumers. Unit sales are expected to increase to 12 million in 2000. Nearly four million PC's were sold for home-use in 1999. Home penetration of PC's in Japan, currently at 35 percent, will reach over 40 percent by 2001. The PC market share for U.S.-affiliated companies was approximately 40% in 1999. Competition, however, is severe and Japanese firms are increasingly focused on servers and computer networking systems -- an area in which U.S. suppliers currently have a leading market position. The commercial market for all computers accounts for 85% of the total market, with government sales accounting for the remaining 15%.

Access to the government market for U.S. computers and supercomputers remains a thorny issue. Most Japanese government purchase orders go to major Japanese computer and supercomputer makers. The most promising sub-sectors in the computer market for U.S. firms are PC's, PC peripherals, PC servers, client-servers, workstations, and computer networking systems. Major local competitors include NEC, Fujitsu, Hitachi, Toshiba, Mitsubishi, Sharp and Sony.

(Millions of U.S. Dollars)

	1998	1999	2000
A. Total market size	38,645	49,298	55,150
B. Total local production	44,476	55,263	59,813
C. Total exports	15,627	18,421	18,682
D. Total imports	9,796	12,456	14,019
E. Imports from the U.S.	2,385	3,070	3,598

Note: The above statistics are unofficial US&FCS estimates

6. Pharmaceuticals (DRG)

Japan represents the largest international market for American pharmaceutical firms. Drug sales have historically accounted for more than 25 percent of the country's total medical expenditures incurred by the nationalized health insurance (NHI) system. A major factor that will influence future demand in this sector will be Japanese Government efforts to reduce the high proportion of the national healthcare budget devoted to drug purchases. The Japanese Government has sought to achieve this goal by cutting drug prices and implementing changes to a reimbursement system that has traditionally encouraged over-prescription of drugs.

In April 2000, Japan's Ministry of Health and Welfare (MHW) cut the average price of the 11,000 drugs reimbursed by the NHI system by seven percent. This follows an average nine percent cut undertaken during the previous biennial price revision in 1998. Despite a strong downward trend on drug prices brought about by the combined impact of large consecutive price cuts, U.S. firms continue to achieve high sales volumes in Japan. In fact, trade figures that show

annual American exports of \$800-900 million, vastly understate the U.S. presence in the Japanese market. Most American companies possess large domestic production facilities and have also developed extensive licensing agreements for the marketing of products by Japanese firms. As a result, sales in Japan by U.S. drugs firms (direct exports, local production and drugs produced under license) total roughly \$10 billion annually. Overall, the U.S. market share is about 18 percent. The total foreign share is around 40 percent.

Despite the success that has been achieved in the Japanese market, U.S. firms remain concerned with the mechanism by which drug prices are established. American and European firms have been encouraging adoption of a pricing system in Japan that more adequately rewards innovation and is more predictable and fair. Despite calls for change, the Ministry of Health and Welfare has postponed any major drug pricing reforms until 2002. Over the next two years, MHW plans to develop new rules for drug pricing calculation methods affecting innovative, generic, "me-too" and orphan drugs. The general effect of the reform is expected to reduce reimbursement for many of the "me-too" drugs produced by Japanese companies. U.S. producers of new drugs are concerned with how MHW's new rules will reward innovative products that require lengthy and costly research and developed efforts.

Several other recent policy changes undertaken by MHW, focused on product approval procedures, are expected to clearly benefit foreign drug firms operating in Japan. These measures include: 1) acceptance of foreign clinical data that meet International Conference of Harmonization and Japanese Good Clinical Practice (GCP) standards; 2) reform of the Central Pharmaceutical Council, MHW's chief advisory council, to allow for more frequent interaction with policy-makers by industry representatives; 3) revocation of the requirement for the publication or presentation of clinical data as a prerequisite to a drug's introduction to market; (4) and most importantly, a reduction in the application review processing time for new drugs from 18 months to 12 months, beginning in April 2000.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	47,000	52,400	54,900
B. Total local production	44,600	49,700	52,000
C. Total exports	1,900	2,300	2,400
D. Total imports	4,300	5,000	5,300
E. Imports from the U.S.	800	810	970

Note: The above statistics are unofficial estimates.

7. Health Foods Centering on Dietary Supplements (FOD)

As in the United States, dietary supplements have experienced substantial growth in popularity in Japan in recent years. The current size of Japan's market for nutritional supplements and health foods is approximately \$6.7 billion. Of this figure, an estimated 40% is composed of vitamins, mineral and herbs. The single largest selling supplement in Japan is vitamin C, with annual sales approaching \$500 million. An additional 53 supplement products each have annual sales exceeding 2 billion yen, or \$18.6 million.

Despite its large nutritional products market, with annual sales equal to one-quarter of the U.S. market, Japan's nutritional supplements sector remains relatively under-developed. High Japanese supplement prices, currently averaging 3-4 times U.S. levels, mask a much lower per capita consumption rate in Japan. Currently, Americans consume nutritional supplements at per capita volumes 7-9 times greater than the Japanese public, suggesting that there remains substantial room for the Japanese market to expand.

One factor that has inhibited Japan's consumption rates is the manner in which nutritional supplements are sold. Approximately two-thirds of these items are sold through non-retail methods. Direct marketing and mail order being two major sales channels. This dependence on non-traditional marketing techniques is partially the result of a loophole in Japan's generally restrictive regulatory environment. Many nutritional supplement products sold commercially in the United States are still not approved for sale in Japan. However, individuals in Japan can import quantities for personal use via mail or as personal baggage upon returning to Japan from foreign travel. The expanded use of the internet in Japan in recent years has contributed to accelerated sales of these products via mail order.

In an effort to expand commercial/retail marketing opportunities for these products, U.S. industry, in cooperation with the U.S. Government, has pressed for deregulation of the dietary supplements sector. These efforts resulted in important progress in the Spring of 2000, when Japan's Ministry of Health and Welfare announced deregulation measures affecting two important components of the supplements market. One measure removed shape and dosage limitations on a number of vitamins and minerals. The second policy change shifted the regulatory authority governing the sale of 34 herbs from the more restrictive rules covering pharmaceuticals to less cumbersome regulations affecting food products. Both measures should result in important new marketing opportunities for U.S. firms.

(Millions of Dollars)	1998	1999	2000
A. Total market size	4,960	5,420	6,729
B. Total local production	3,720	4,065	5,046
C. Total exports	49	54	59
D. Total imports	1,289	1,409	1,742
E. Imports from the U.S.	428	468	608

Note: The above statistics are unofficial estimates.

8. Telecommunications Equipment (TEL)

Demand in Japan for telecommunications equipment (excluding fiber optic cable) was estimated at \$29.7 billion in 1999. The number of Internet users in Japan was estimated to have exceeded 27 million by the end of 1999, and is expected to reach 77 million within five years. The Internet is estimated to have penetrated into 19 percent of Japanese households and 88 percent of businesses, with the rate of diffusion continuing to accelerate.

However, in Japan it is crucial to use the right indicators to measure Internet use. Reflecting the Japanese preference for mobile communications, the number of fixed line subscribers to NTT East and NTT West has been decreasing over the past two years, and stood at about 55 million at the end of 1999. In contrast, the number of mobile phone users has grown exponentially, finally exceeding the number of fixed line subscribers for the first time at the end of 1999. On June 1, 2000, there were approximately 58.6 million mobile phone users in Japan.

The number of high-speed digital domestic leased circuits exceeded the number of ordinary low-speed leased circuits in 1998, reflecting the current trend of volume shifting from voice to data. As for international leased circuits, medium- and high-speed transmission circuits account for 85 percent of all circuits.

KDD's 100Gbps Japan Information Highway (JIH) optical fiber submarine cable for interfacing international high-speed networks came into operation in April 1998. Japan's major telecom carriers such as NTT, PowerNets Japan, Japan Telecom and DDI are planning to establish DWDM network for the upcoming broadband network age.

Japan has a National Information Infrastructure (NII) plan to connect all homes, offices, schools, and government entities with a fiber optic network by 2005. Japanese companies in industries most dependent on telecommunications -- such as banking, securities, retail distribution, and construction -- are also under most pressure to reduce their costs of operations. WTO liberalization commitments, technological advances, and increased user opposition to traditional, limited, high-priced business options are driving the Government of Japan to deregulate, liberalize, and react more quickly to the demands of the market.

(Millions of U.S. dollars)

	1998	1999	2000
A. Total market size	24,561	27,935	29,763
B. Total local production	26,598	30,133	32,105
C. Total exports	5,434	5,984	6,376

D. Total imports	3,397	3,786	4,034
E. Imports from the U.S.	1,915	2,077	2,213

Notes: 1) 2000 statistics are unofficial estimates

2) Source for B, C, D, and E figures for 1998 and 1999:

CIAJ (Communications Industry Association of Japan)

9. Building Products (BLD)

The total Japanese residential and commercial building products market has been declining because of the Japan's prolonged economic slump. However, the market decline appears to have hit bottom in 1999, beginning a slow recovery in 2000. The Government of Japan (GOJ) has been enacting various economic stimulus measures such as public works projects and an expanded tax incentive program for homebuyers. These measures will help the Japanese building products market to recover, although this recovery may be slow.

Total housing starts hit 1.71 million in 1990, the third highest number in Japan's history, but dropped 19.7% in 1991. From 1992 to 1995, housing starts stabilized in the 1.4 - 1.5 million range. In 1996, the total increased 11.8% but declined again by 15.6% in 1997 and 13.6% in 1998. Starts increased 1.4% to 1.21 million in 1999. The trend toward a housing market recovery should continue through 2000 into the next few years.

In combination with a housing market recovery, the Building Standard Law (BSL) of Japan was revised from a prescriptive to performance-based certification standard system in June 2000, opening up more opportunities for competitive new products. The new BSL should make it easier to sell U.S. residential building products in Japan. Because of the slow housing market, exports of U.S. residential building products to Japan declined significantly in 1998. However, because of the market recovery and deregulation, U.S. residential building material exports to Japan likely hit bottom in 1999 and will increase marginally in 2000.

Over the long term, there is good potential for the sale of U.S. building products in Japan. The 2x4 housing market, which accounts for a major portion of the sales of U.S. housing products, was only 6.3% of the total housing market in 1999. Thus, there is still a sizable and largely untapped market potential if U.S. companies target the non-2x4 sectors. In addition, the Japanese remodeling market may grow significantly, generating opportunities for U.S. companies to expand business within this market segment.

Major exporting regions competing with the United States are Canada, the countries of East Asia, and Scandinavia. Since most Japanese companies are not familiar with imported building products, it is important for manufacturers and exporters to provide information on how to use their products as well as after sales service.

(Millions of Dollars)

1998	1999	2000
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A. Total market size	117,700	135,900	145,600
B. Total local production	110,100	126,500	135,500
C. Total exports	900	900	900
D. Total imports	8,500	10,300	11,000
E. Imports from the U.S.	1,700	1,600	1,700

Note: The above statistics include residential and commercial building products and are unofficial estimates.

10. Automobiles (AUT)

Japan is the second largest motor vehicle market in the world, but the persistent recession has adversely affected Japan's market for automobiles, and has dealt a serious sales blow to Japan's domestic automakers to varying degrees. Thanks to strong overseas demand for their products, Toyota and Honda have weathered the storm relatively well, while most of the rest have been forced to restructure their operations and seek foreign equity participation in their companies. For years, Ford has owned a significant stake in Mazda Motors while GM has invested in Isuzu and Suzuki. But recently, there has been a wave of mergers and tie-ups between the global automakers, including Renault's investment in Nissan, Daimler-Chrysler's purchase of a stake in Mitsubishi, and GM's investment in Fuji Heavy, maker of Subaru.

Japan no longer imposes tariffs or quotas on automobile imports, but there are a number of regulatory restrictions on imports as well as differences in language, culture, business practices, and legal systems that have been recognized as non-tariff barriers. Foreign car companies continue to face severe challenges in the Japanese automobile market. In 1999, more than half of America's \$73 billion bilateral trade deficit with Japan was due to the imbalance in trade in autos and auto parts. In vehicles alone, the trade deficit was \$28.2 billion in 1999, up 17% from \$24.1 billion in 1998.

(Millions of U.S. Dollars)

	1998	1999	2000 (estimate)
Total market size	90,382	100,314	107,000
Total local production	149,673	163,015	170,000
Total exports	67,449	72,632	73,000
Total imports	8,158	9,931	10,000

Imports from the U.S.	1,853	2,137	2,200
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(The above statistics are unofficial estimates based on number of units x average unit price as provided by the Japan Automobile Dealers Association.)

11. Marine Products (MFI)

The Japanese domestic fisheries harvest has continued to decrease since 1994 at an annual rate of 3.5 percent. The 1998 total landed quantities (combined wild and farmed harvests) were 6.7 million metric tons (MT) compared with 8.1 million MT in 1998. Japanese marine product imports continued to increase in 1999 to 3.4 million MT, a rise of 10.1 percent. The import value also increased from \$13 billion in 1998 to \$15 billion in 1999. Japanese imports of U.S. fishery products increased 2.5% in tonnage and 22.1% in value from 361,739 MT (\$1.3 billion) in 1998 to 370,614 MT (\$1.5 billion), due primarily to a good salmon harvest in Alaska. Japan imports from the U.S. a wide variety of fishery products, from relatively low-priced frozen fish to high-valued items such as fresh sea urchin roe and bluefin tuna.

American species which exhibited notably increased sales to Japan from 1998 to 1999 included, ikura salmon eggs (\$60.9 million, up 43%); prepared or preserved crabs (but not in cans) (\$3.3 million, up 65%); brined salmon fillets (\$2.1 million, up 75%); frozen American lobster (\$1.6 million, up 128%); and fresh finfish, n.e.s., (\$3.8 million, up 26%).

(Millions of Dollars)

	1998	1999	2000
A. Total market size	27630	31383	32984
B. Total local production	15498	17370	18507
C. Total exports	1163	1244	1365
D. Total imports	13295	15257	15842
E. Imports from the U.S.	1375	1745	1805

Note: The above statistics are unofficial estimates.

12. Auto Parts & Accessories (APS)

According to the Japan Auto Parts Industry Association, auto parts production during Japan's fiscal year 1998 (April 1998 through March 1999) was 12.46 trillion yen (\$118.7 billion at 105 yen/dollar), down 5.8 percent from 13.22 trillion yen (\$125.9 billion at 109 yen/dollar) the previous year. This decline reflects Japan's stagnant economy and reduced automobile

production. It is anticipated that Japan's auto parts production will level off or increase slightly when figures are published for 1999. Because of Japan's status as the world's second largest auto producing country, and the world's second largest market for automobiles, the auto parts industry is one of Japan's largest and most important. Automobile parts and equipment imports make up only about 2.8 percent of the total market, but U.S. auto parts manufacturers do have a dominant share of the Japanese imported auto parts market (about 36 percent in 1998). Deregulation of Japan's auto parts market resulting from U.S. government pressure, competitive market forces and the measures called for in the U.S.-Japan 1995 "Framework Agreement" are opening up opportunities for U.S. auto parts and equipment suppliers in both the OEM and after-market sectors. However, stiff competition and other significant barriers remain. Japan's current economic slump has also slowed the sales of both domestic and foreign auto parts sales.

(Millions of U.S. Dollars)

	JFY1998	JFY1999 (estimate)	JFY2000 (estimate)
Total market size	105,080	108,000	113,400
Total local production	126,862	130,000	136,500
Total exports	24,590	25,000	26,250
Total imports	2,808	3,000	3,150
Imports from the U.S	1,021	1,100	1,155

(The above statistics are unofficial estimates based on data received from the Japan Automobile Parts Industry Association.)

13. Electrical Power Equipment (ELP)

The Japanese electric power supply system has existed for the past fifty years by relying on regional monopolies controlled by ten electric power companies. In 1996, the wholesale market for electricity was first liberalized and independent power producers started appearing. Subsequently, on March 21, 2000, approximately 30 percent of the market for retail sales of electricity was opened to competition. The effects of this liberalization will be reviewed after a three-year time frame. With the introduction of competition in the Japanese power generation market, the price of electrical power equipment was reduced sharply. The ten electric power companies, not to mention new independent power producers, have been eagerly looking for competitively priced, efficient equipment. Demand for electricity on a long-term basis is forecast to grow at a rate of 1.2 to 2.1 percent per annum. Although the electric power companies have been reducing their investment for want of a clearer demand potential, the electrical power equipment market is sufficiently large to attract the interest of competitive U.S. manufacturers.

(Millions of U.S. Dollars)

	1998	1999	2000
Total market size	19,200	20,100	21,400
Total local production	20,698	21,668	23,039
Total exports	2,650	2,774	2,953
Total imports	1,152	1,206	1,284
Imports from U.S.	806	844	899

Note: The above statistics are unofficial estimates.

14. Official Development Assistance (AEC)

The Ministry of Foreign Affairs, Ministry of Finance, Ministry of International Trade and Industry, and the Economic Planning Agency are the controlling agencies behind Japan's ODA (Overseas Development Assistance) programs. The Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA) provide the implementation services to carry out ODA strategies. JBIC extends yen loan programs, while JICA carries out grant aid programs.

ODA is extended to almost all underdeveloped countries, with Asian countries receiving the greatest assistance. ODA programs consist of diverse development programs, including social infrastructure, economic infrastructure, production, multi-sector assistance, commodity aid, emergency assistance, and disaster relief. Grant aid programs are mostly tied, while yen loan programs are generally untied. Yen loan programs are, therefore, the best prospective field, offering more accessible business opportunities to U.S. firms. In yen loan programs, architectural design and civil-engineering consulting firms, general contractors, specialty contractors (e.g., power, water, sewage, waste, and transportation) and specialty consulting firms (airports, seaports, roads, bridges, tunnels, and environment) can identify numerous business opportunities. To effectively participate in yen loan projects, U.S. firms should familiarize themselves with the JBIC procurement guidelines, as well as customary business practices used with yen loan projects.

For further details, see the "ODA Handbook" prepared by the U.S. Department of Commerce: www.ita.doc.gov/region/japan/odahand/html. Participation of third-country competitors is estimated at 70% - 80% of total yen loan values. Competition with local firms is typically severe.

Yen Loan Market

(Millions of U.S. Dollars: Commitments Basis)

	1998	1999	2000
A. Total Yen Loans	8,400	9,300	9,300*
B. Local Sales by Local Firms	N/A	N/A	N/A
C. Overseas Sales by Local Firms	2,500*	2,800*	3,300*
D. Sales by Foreign Owned Firms	5,900*	6,500*	6,000*
E. Sales by U.S.-owed Firms	460*	520*	560*

Note:

(1) Figures are based on JBIC annual reports and relevant ODA data compiled by the Ministry of Foreign Affairs.

(2) The figures with an asterisk are CS Tokyo estimates.

(3) CS Tokyo estimated sales by U.S. firms on both cases where U.S. firms acted as prime contractors or subcontractors for Yen loan projects.

15. Pollution Control Equipment and Services (POL)

Facing increasing domestic and foreign pressure for Japan to move towards a pollution-free society based on "sustainable development," the Japanese national government, as well as local municipalities, are adopting stricter environmental laws and regulations. Large- to medium-size Japanese firms are now considering environmental factors in their decisions regarding product manufacturing and distribution. Also, the Government of Japan is allocating an increased portion of its huge public work budget to improve basic infrastructure for environmental protection and pollution abatement. The environmental protection market has been less affected by the prolonged recession than other industrial sectors.

Accordingly, the Japanese market for environmental protection and pollution control is expected to expand steadily with a wide array of industries expressing their interest in participating in the environmental market. While the nation has a well-known reputation for "end-of-pipe" pollution control technology, it is deficient in almost all matters of environmental remediation engineering. This extends to a need for more advancement in the development of cost-effective solutions for newly arisen contamination issues. Therefore, the sales potential for the state-of-the-art U.S. equipment and analytical services, such as those for restoration of contaminated soil and groundwater, as well as dioxin emission controls, remain quite good.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	112,519	134,079	148,140
B. Total local production	112,588	134,711	148,888

C. Total exports	564	947	1,121
D. Total imports	191	316	374
E. Imports from the U.S.	115	190	224

Note: The above statistics are unofficial estimates.

16. Apparel (APP)

Apparel is one industry sector in which Japan has a trade deficit, and apparel imports hold almost 40% of the total Japanese apparel market. The United States is the forth-largest apparel supplying country following China, Italy and Korea. With the Japanese economy showing signs of recovery, apparel sales at department stores have been improving and some retailers are doing extremely well. Apparel imports from the United States in 1999 dropped slightly by 0.3%. American fashion, particularly casual clothes, continues to hold wide appeal in Japan.

The Office of Textiles and Apparel of the U.S. Department of Commerce and the Commercial Service Japan (CS Japan) have staged the U.S. Apparel Show in Japan every year for the last 19 years, featuring mainly casual wear. The last U.S. Apparel Show held in January 2000, within the International Fashion Fair, was very successful with immediate sales of \$4.6 million. This show should continue to thrive as an effective vehicle for introducing American-made casual fashion into Japan.

The following statistics include only knitted and woven apparel.

(Millions of Dollars)

	1998	1999	2000
A. Total Market size (at wholesale)	33,192.4	36,426.1	40,627.8
B. Total Local Production	20,343.5	22,201.8	23,654.2
C. Total Export	182.1	205.6	215.0
D. Total Import	12,848.8	14,224.4	16,973.6
E. Imports from U.S.	420.8	468.1	498.7

Note: The above statistics are unofficial estimates.

17. Architectural/Construction/Engineering Services (ACE)

Total construction investment in Japanese Fiscal Year (JFY) 1999 is estimated at 70 trillion yen (approximately US \$614 billion), of which 47% was public investment and 53% was private investment. Japan's construction market is the second largest in the world, following the United States. American architectural design firms, civil-engineering consulting firms, general contractors, and specialty consulting firms (e.g., airports, hospitals, facilities for elderly citizens, landscaping, and interior design) have ample opportunity to demonstrate their expertise in the Japanese market. Concerning public projects, the Government of Japan published the Construction Action Plan to streamline Japan's public procurement procedures in order to facilitate foreign firms' participation in Japan's public construction work. Action Plan measures are based on open and competitive procurement procedures, and project information is more easily accessible compared with ordinary public projects. The Commercial Service of the U.S. Embassy in Tokyo believes therefore that Action Plan projects will continue to offer the best sales prospects. Total value of Action Plan projects in JFY 1999 is estimated at US \$16 billion. For JFY 2000 and beyond, the same level of Action Plan procurement is expected. Recently, Action Plan entities have begun to study U.S. advanced technologies, including PM, CM, VE and PFI (Private Finance Initiative) to upgrade production efficiency at public work sites. Under these circumstances, competition with Korean and EU construction firms will become harsh.

Japan's Construction Market
(Millions of U.S. Dollars)

	1998	1999	2000
A. Total Construction Market	537,000	614,000	630,000*
B. Local Sales by Local Firms	536,800*	613,700*	629,650*
C. Overseas Sales by Local Firms	1,000	1,200	1,400
D. Sales by Foreign Owned Firms	200*	300*	350*
E. Sales by U.S.-owed Firms	180*	220*	250*

Note:

(1) Total Construction Market (A) is the sum of overall construction investment cost including construction materials and construction machinery cost, but excluding land acquisition cost.

(Source: Ministry of Construction)

(2) Overseas Sales of Local Firms (C) were estimated on the basis of the data provided by the Overseas Construction Association of Japan Inc.

(3) Figures with an asterisk are CS Tokyo estimates. Sales by U.S.-owned firms include private and public contracts, including subcontracting contracts as well as construction materials and machinery supplies.

18. Plumbing Products/Food Disposers (BLD)

Like the Japanese construction industry, the Japanese plumbing products market had been hurt by the long-lasting economic downturn. Before the recession, the Japanese plumbing product market was relatively stable at approximately 100 billion yen annually (USD 910 million). However, the current market size is about 30% below this figure. Faucets and other valves are thought to constitute about half of the market. Industry observers foresee the plumbing products market returning to the 100 billion yen level once Japan's recession has ended.

A number of factors (including government regulations, in particular) used to effectively shield domestic manufacturers from foreign competition. In 1997, the Ministry of Health and Welfare (MHW) revised the 1957 Japan Water Works Law (WWL). The measures taken by MHW largely removed regulatory barriers to foreign plumbing products. Three years after MHW's deregulation initiatives, the Japanese market finally started to respond to these regulatory changes. Japanese importers and large end-users such as prefabricated homebuilders started to seek out new and high quality US plumbing products.

In March 2000, the Japanese Ministry of Construction (MOC) confirmed that the agency does not have regulatory authority over the use of food disposers. Japanese municipal governments, which operate sewage systems in Japan, used to limit sales of U.S. food disposers because of possible adverse effects on municipal sewage systems. The U.S. food disposer industry is preparing to provide Japanese municipal governments with engineering data that supports the position that there are no significant adverse effects on the municipal sewage systems. This advocacy may open up the \$60 million market for American-made food disposers.

(Millions of Dollars)	1998	1999	2000
A. Total market size	650	600	670
B. Total local production	700	650	700
C. Total exports	90	100	90
D. Total imports	40	50	60
E. Imports from the U.S.	30	40	50

Note: The above statistics are unofficial estimates.

19. SOHO (Small Office/Home Office) Products and Services (FUR)

In recent years, with the increasing penetration of the Internet, greater attention in Japan has focused upon enhancing the capabilities of persons employed in alternative work environments. As a result, marketing opportunities catering to the needs of small business offices and home offices (SOHO) has expanded. Broadening the range of work that can be

completed in these non-traditional environments, and developing tele-commuting or "telework" capabilities, offers the potential to cut commuting time and costs (including mental ones), as well as allowing for flexible work styles. Business opportunities created by expanded use of "telework" methods, include marketing to employees of large companies working at home or satellite offices. These SOHO services can include all office and information technology services necessary to support people working from home or small offices. The development of communication technology and computer networking is encouraging both employers and employees to look into the transfer and decentralization of work from traditional offices to small and home offices.

Additional factors that support the growth of SOHO marketing opportunities are corporate restructuring, downsizing and outsourcing as measures for dealing with the economic recession. Furthermore, Japan is expecting a serious labor shortage due to a steadily decreasing birth rate. While in the U.S. there are reportedly over 40 million teleworkers, industry sources estimate that there will be 3.5 million teleworkers in Japan in 2001.

Several factors indicate future growth of this sub-market in Japan: (a) The development of communication and network technology. This is encouraging some regional governments to promote knowledge-based industries with the slowdown of active manufacturing industries. Also, consumers are increasingly incorporating personal computers and information networks into their private lifestyle; (b) Decreasing birth rate and a rapidly graying population in Japan, is encouraging more women and elderly citizens to remain in the labor force, (c) Corporate restructuring and downsizing which prompts business-minded employees to start their own business, and (d) Increasing demand for outsourcing as a result of corporate pursuit of efficient management.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	4232	4456	4900
B. Total local production	4148	4323	4655
C. Total exports	NA	NA	NA
D. Total imports	84	133	245
E. Imports from the U.S.	4	6	10

Note: The above statistics are unofficial estimates.

20. High Technology Home Healthcare Equipment Market (MED)

Japan's population is aging more rapidly than that of any other major developed nation. By the year 2025, the percentage of persons in Japan over the age of 65 will have increased from the current level of 16 percent to 25 percent. Put another way, the number of bed-ridden or

seriously ill Japanese is expected to increase from 2.8 million at present, to over 5 million by 2025. This dramatic demographic change will have a profound impact on Japan's healthcare system. One major anticipated development will be a significant expansion in the demand for home healthcare equipment and services.

The aging of Japan's population will compound pressure that is already building to reduce hospitalization costs, which currently consume almost half of Japan's national healthcare budget each year. While the average hospitalization period in the United States is approximately one week, in Japan it is 35-40 days. Some sources suggest that average hospitalization period for Japanese over the age of 65 exceeds two months. Efforts are already underway to encourage a shift in treatment of patients from hospitals to long-term care and nursing facilities. In April 2000, Japan's Ministry of Health and Welfare adopted a new long-term healthcare policy designed to expand non-hospital alternatives for care for the aged.

The pressing need for Japan to develop greater capabilities for providing care at home should spur development of market opportunities in the home healthcare sector. Japan's current capabilities in two sub-sectors of this field provide an illustration of the undeveloped market potential. In the field of home infusion therapy (HIT), used to deliver drugs and nutrition intravenously, the American market is estimated by one market research firm to be valued at approximately \$8 billion. In Japan the market size is only about \$3.75 million. According to an industry expert, as of 2000, there were 31,000 Japanese patients in need of HIT treatments, but only 1,500 - 2,000 patients receiving such care. In a second home care field, home oxygen therapy (HOT), the U.S. market is valued at approximately \$4.6 billion. The size of the corresponding Japanese market is only about \$120 million.

Given the long-term prospects for substantial expansion of Japan's home healthcare market, combined with a strong U.S. home healthcare equipment industry, prospects for increased American exports in this sector appear quite promising.

Market Size of High Technology Home Healthcare Equipment (HIT & HOT)

(Millions of Dollars)

	1998	1999	2000
A. Total market size	84	105	124
B. Total local production	34	42	50
C. Total exports	0	0	0
D. Total imports	50	63	74
E. Imports from the U.S.	50	63	70

Note: The above statistics are unofficial estimates.

20. Machine Tools (MTL)

Machine tools include machines for turning, gear processing, milling, and grinding, as well as machining centers, laser operated machines, electronic distance measurement, dry etching and other machine tools. Of these, dry etching machines represented the largest market for imports into Japan in 1999, while imports of electronic distance machines also showed a year on year increase. Otherwise, due to the lingering Japanese recession, the machine tools market in Japan witnessed slack demand last year. Overall Japanese domestic production of machine tools sagged 16% in 1999, over the previous year, for a total value of 850 billion yen. Domestic demand plunged sharply with overseas shipments also falling in yen terms. Overall orders placed with Japan's nine major machine tool manufacturers plunged a further 42.3% in May 1999 as compared to the same period in 1998. These figures reflect Japan's stagnant domestic economy and weak demand following years of intensive investment in industrial facilities. By contrast, machine tools imported to Japan from the U.S. in 1999 increased 13% over the previous year. This strong showing reflects American machine tool dominance in laser-operated machinery and dry etching machinery used in the semiconductor industry. American makers have the largest share of the Japanese market for imported machine tools, followed by products from Germany, Switzerland and Thailand. As Japan's economy begins to recover, and with Japanese factory equipment showing signs of age in certain sectors, the market for machine tools should experience modest growth.

(Millions of U.S. Dollars)

	1998	1999	2000
(Estimate)			
A. Total market size	3,205	2,676	2,729
B. Total local production	7,718	7,452	7,601
C. Total exports	5,016	5,335	5,442
D. Total imports	503	559	570
E. Imports from the U.S.	257	335	342

(The above statistics are unofficial estimates based on data received from the Japan Machine Tools Importers Association, the Ministry of International Trade and Industry and the Ministry of Finance.)

22. Sporting goods (SPT)

The Japanese sporting goods market (at wholesale) shrank by approximately 4.3% in 1999 because of the soft economy. Major reasons for the decrease included: 1) an end to Japan's lure-fishing boom, resulting in the recreational fishing equipment market shrinking by over 10%, 2) the snowboard boom had abated, 3) the golf market has still not recovered from the a decline

brought about by the Japan's extended recession. As a result, the Japanese sporting goods market is expected to remain stagnant in 2000. On a positive note, the oversupplied winter (ski and snowboard) sports market has improved, especially for the ski market

Sporting goods represent one of the few sectors where the U.S. enjoys a large trade surplus with Japan. Japanese imports of sporting goods in 1999 decreased by 10.4%, with purchases from U.S. declining by 22.5%. Some of the decline in imports from the U.S. may be the result of expanded overseas production by U.S. manufacturers. Also, China remains a strong competitor in the sporting goods market.

(Millions of U.S. Dollars)

	1998	1999	2000
A. Total Market size (at wholesale)	8,488.8	9,350.8	9,863.2
B. Local Production	6,882.9	7,863.8	7,265.8
C. Total Export	334.7	380.7	425.0
D. Total Import	1,865.6	1,941.9	2,172.4
E. Imports from U.S.	459.8	431.4	436.6

(The above statistics are unofficial estimates.)

23. Textile Products (TXP)

The total Japanese interior textile products market has been declining because of the weakness of the Japanese economy over the last several years. However, the market decline may have hit bottom in 1999, and is expected to rebound in 2000. The Government of Japan has been taking various economic stimulus measures such as an expanded tax incentive program for homebuyers. These measures will help the Japanese housing market, which should have a positive influence on the Japanese textile products market.

Statistical analysis suggests that the Japanese interior textile products market is closely tied with Japan's new housing starts. This is because consumers often purchase curtains, carpets and other textile products when they buy or build a new home. For example, annual housing starts in Japan declined 15.6% in 1997 and 14.5% in 1998, while the total interior textile market declined 4% in 1997 and 13% in 1998.

Housing starts increased 1.4% to 1.21 million in 1999 and are continuing a slow but steady recovery in 2000. We believe that this trend should continue over the next few years. The increase in housing starts will stimulate the Japanese interior textile market to grow slowly in 2000.

Because of the current difficult market conditions in Japan, the total imports of textile products as well as imports from the U.S. declined by 5.2% and 25.9% respectively in 1999 in terms of Japanese yen. Since the total market is estimated to grow, total imports and the imports from the U.S. are also estimated to grow in 2000.

Major exporting nations competing with the United States are European countries in the high-end market, and Asian countries such as China in the low-end market. There are no significant regulatory barriers that hamper U.S. exports to Japan except for flame retardancy regulations. American manufacturers may find it necessary to modify their products for the Japanese market since U.S. textile products sometimes are of different patterns, colors, and sizes.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	3,426	3,858	4,131
B. Total local production	2,524	2,876	3,080
C. Total exports	27	30	32
D. Total imports	929	1,011	1,083
E. Imports from the U.S.	58	49	52

24. Home Fashion (HCG, GCG, FUR)

The Japanese home fashion market totals \$2.5 billion. With more than 8 million children of Japanese baby boomers starting their own homes and approximately 750,000 newly wed couples each year in Japan, the home fashion market should experience strong demand for the next several years. Japanese consumers exhibit active and growing interest in coordinated home fashion, including decorative accessories and housewares. Home fashion products encompass a broad range of products, ranging from housewares, decorative accessories to bathroom and personal care items. With the support of young and mature consumers with comfortable disposable income, the so-called home fashion market with lifestyle themes is flourishing in Japan. In addition to domestic retailers such as FranFran, Muji and Sazaby's, foreign stores like the British Conran Shop and Swedish ILLMS are drawing fashion-sensitive Japanese consumers. While Japanese living standards have greatly improved, Japanese home fashion lags behind the U.S. and Europe. U.S. housewares can contribute to the upgrading of housewares in 40 million Japanese households.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	2,300	2,500	2,637

B. Total local production	2,070	2,250	2,362
C. Total exports	negligible	negligible	negligible
D. Total imports	230	250	275
E. Imports from the U.S.	3	3	4

Note: The above statistics are unofficial estimates.

25. Food Processing Machinery (FOD)

Japan's food processing machinery industry faces requirements for new equipment needed to meet the Japanese peoples' growing appetite for international foods, as well as consumers' demand for lower prices, health conscious choices, and exacting standards of quality. Due to slack domestic demand and a sharp drop off in Japanese machinery exports to Asian markets, Japan's production of food processing machinery fell five percent in 1998. Japanese exports picked up in 1999, but Japan's prolonged recession continued to depress demand at home. This resulted in a further decline in Japanese production and imports of food processing machinery in 1999. Last year, Japan's overall production of food processing machinery totaled 475 billion yen as compared to 489 billion in 1998. Overall food processing machinery imports declined somewhat last year, but helped by a stronger yen, U.S. imports rose somewhat. Dairy processing machinery showed the strongest growth of any sector in this industry for the second year running, posting a production increase of about 18% in 1999 as compared to the previous year.

(Millions of U.S. Dollars)

	1998	1999	2000 (estimate)
A. Total market size	3,754	4,152	4,235
B. Total local production	3,737	4,167	4,250
C. Total exports	88	108	110
D. Total imports	105	93	95
E. Imports from the U.S.	17	25	26

(The above statistics are unofficial estimates based on data received from the Japan Food Machinery Industry Association.)

26. Flat Glass (BLD)

Since 1997, the Japanese flat glass market had been markedly shrinking. However, small signs indicating a slight recovery were noted during the 2nd and 3rd quarters of JFY 1999. Demand from the construction and auto industries, which account for 90 percent of the market, are both showing signs of improvements.

The Japanese Government introduced tax incentive measures for homebuyers that helped to expand single family and condominium sales. In 1999, new housing starts increased 1.4 % to 1.215 million units and during the first quarter of 2000, new housing starts further improved to 4.4 %. The commercial construction segment also started to show small improvements. In 1999, new (none-residential) building construction projects was 6.% less than the previous year's figure. However, in the first quarter of 2000 it increased 6.3% (compared to the first quarter of 1999).

In 1999, the demand in the automobile segment still remained at the same level as in 1998. However, sport utility vehicles (SUVs) showed a small increase, 1.4 % compared to the previous year's figure. It is expected that the economic recovery in 2000 may help increase demand in the auto industry. Even though the demand indicated slight improvement, prices still remained at a very low level. The Japanese economy is still too weak to buoy prices to previous levels.

At the end of 1999, the US-Japan Flat Glass Agreement expired, leaving substantial structural barriers remaining in the market. However, severe price competition may accelerate changes with Japanese users interested in more competitive pricing (and better quality) combined with high value-added products. These are areas in which U.S. flat glass manufacturers may have advantages.

(Millions of dollars)

	1998	1999	2000
A. Total market size	1,750	1,750	2,000
B. Total local production	1,780	1,780	2,020
C. Total exports	200	200	180
D. Total imports	160	160	160
E. Imports from the U.S.	90	90	90

n/a Telecommunication services (TES)

In line with agreements reached at the WTO in February 1997, bills to revise the Telecommunications Business Law and Radio Law were passed by the Diet in June 1997. The new law removed all limitations on foreign investment in Type-I telecommunications carriers, including those for radio station licenses, with the exception of NTT. The revised clauses were

enforced in February 1998. Very shortly thereafter, MCI WorldCom was granted a Type-I license to become the first telecom carrier owned by a foreign entity.

Telecommunication service providers include Type I (facility-based) and Type II (no self-owned infrastructure, or facility leasing) businesses. In 1999, 1,218 companies began operations in Japan as telecommunications service providers, about a 35 percent increase over the previous year. Of those 1,218 service providers, 249 were Type I businesses. This number represented a 40 percent increase in one year. As of March 1st, 2000, the total number of Type I and Type II service providers were 252 and 7,522 respectively.

Japan's telecommunications service market is expected to continue to expand as a result of innovative technologies such as IP-based technologies, increasing data traffic, as well as continued measured deregulation efforts by the Japanese government. However, new entrants to this market face NTT's high local interconnection rate. NTT's rate is more than five times higher than certain U.S. local rates, and more than double the interconnection rates charged in the UK and France. New entrants who must pay these high rates are severely disadvantaged in competing with NTT. The structure of NTT's interconnection charges is anti-competitive as well. The U.S. government is calling on the Japanese government to reduce NTT's competition-distorting interconnection rates.

(Millions of U.S. Dollars)

	1998	1999	2000
Total market size (Sales Volume)	113,100	145,200	155,400

Notes: Source for figures for 1998 and 1999: MPT.
2000 statistics are unofficial estimates.

n/a Education/Training Services (EDS)

The number of Japanese students studying abroad decreased in 1998. This was the first annual decline since 1991. However, Japanese interest in studying abroad remains strong, and the number of students going abroad increased in 1999, thanks in part to the appreciation of the yen. European countries are becoming increasingly popular as study abroad destinations. However, non-English speaking countries account for only small percentage of such study. The number of students going to the U.K. grew from 11,063 in 1991, to 25,026 or 13.4% of the total study abroad destinations in 1999. The United States is still by far the number one destination, attracting 44.5% of all students going overseas.

According to a private sector survey, the ratio of working women among those who study abroad increased from 27.2% to 35.4% in the past decade. This group is expected to grow further. Working women tend to opt for longer programs, including attending accredited colleges. The number of elderly people going abroad to study is small at present. However, there is a strong interest within Japan's rapidly aging population for such ventures. As a result, this

demographic group is expected to grow to be a sizable market in a few years time if appropriate programs are offered.

Outbound trips of the Japanese (in thousand)			
	1998	1999	2000*
All departures	15,806 (-5.9%)	16,358 (+3.5%)	17,000+
Departing with purpose to study	181 (-3.4%)	187 (+3.2%)	190
to study in USA	79 (-4.9%)	83 (+5.2%)	87

*2000 figures are rough estimate.

n/a Broadband Services Including Cable TV Services (FLM)

Telecom service charges incurred by households and offices are declining as lower price services become more widely available. It is expected that much of the “savings” realized from lower service charges will be spent on high-speed digital information services. At the same time, the added value of packaged media will be replaced by digital network-based distribution.

Communication services currently accounts for nearly 40% of the typical Japanese household services budget, with TV services accounting for about a 20% share of these expenditures. Decreases in package content media leaves a balance that is about \$60 per month per household. Much of this balance could be the potential market for broadband content services—a total market size of around \$30 billion.

Cable TV’s potential for becoming an information channel to private homes is being closely watched and realignment of the broadcasting industry, including foreign-affiliated firms, is likely to accelerate. The digitalization of broadcasting has enabled multiple channels and helped improve image quality. CS digital TV was broadcasting in Japan with more than 300 channels by the end of 1998. With the development of Cable TV, Japan's Ministry of Posts and Telecommunications forecasts that by 2010 about 60% of Japanese households will subscribe to cable TV, and about 80% will subscribe to satellite broadcasting service. As a result, there is a great demand for good program content.

With the Japanese audience's love of American films/video's and other entertainment programs, U.S. TV programs should have excellent prospects in the emerging Japanese TV broadcasting program market. At present, Japanese TV programs in general are geared for younger age groups. However, if we consider the rapid aging of the Japanese and that elderly people tend to spend more time watching TV, programs for senior citizens should experience an

increase demand. While terrestrial and BS TV stations have been strong, development of cable TV and other media, including interactive internet media, has been relatively slow. As of March 1998, 6.7 million households subscribed to cable TV, which was a 34.4 percent increase from the previous year.

Pursuant to the basic accord on telecommunications of the WTO, the Japanese government decided in 1998 to abolish rules restricting foreign investment in cable TV companies that provide Class 1 telecom services. At the end of fiscal year 1998, 66 cable TV operators had been approved for Type 1 operation. Services include private applications such as home security, and data and voice transmission services. Of the 28 cable TV operators offering internet connection services at the beginning of 1999, 24 had been in the business for less than one year. Japan's cable TV infrastructure reaches over 21 million households. Over the medium term, there is a strong likelihood of cable TV infrastructure being utilized as an access network in Japan for households wanting interactive broadband services.

B. BEST PROSPECTS FOR AGRICULTURAL PRODUCTS (UNRANKED)

1. Unranked - Rice (FOD)

Japan's rice market was opened to imports under the Uruguay Round Agreement. Then, on April 1, 1999, the Government of Japan implemented rice tariffication. Under this system, in addition to Japan's minimum access and SBS commitments, Japan is allowing additional rice imports, subject to a tariff of 351.17 yen per kilogram. However, due to the high tariff level, volumes imported outside of minimum access and SBS are expected to be very limited. Although no official trade data is available for rice imported outside minimum access, actual imports are forecast to be very small.

Under the terms of the Uruguay Round Agreement, the tariff will be reduced slightly to 341 yen per kilogram beginning JFY 2000 (April 1, 2000).

Overall, U.S. rice accounted for 47.9 percent of total imports in JFY 99. Under the Simultaneous-Buy-Sell (SBS) portion, the U.S. accounted for 30.7 percent of total sales, up slightly from the year before. Due to improved quality and competitive prices, Chinese rice has increased market share at the expense of U.S. sales under the SBS tender system since JFY1998.

Under the new import regime, minimum access rice imports will increase by only 0.4 percent every year amounting to 7.2 percent of total domestic consumption in 2000. Japan is forecast to import 644,000 MT (milled basis) in 1999 and 682,000 MT in 2000. In March 2000 the GOJ entered final discussions to establish a food self-sufficiency target at 45 percent on a caloric basis for Japanese JFY2010.

Major local and third-country competitors: Japan
Australia
Thailand
China

(1,000 Metric Tons)

	1998	1999	2000*
A. Total market size	12,357	11,866	11,702
B. Total local production	8,154	8,349	8,300
C. Total exports	340	144	160
D. Total imports	634	650	680
E. Imports from the U.S.	250	312	330

* The U.S. Department of Agriculture forecast
(The above statistics are unofficial estimates.)

2. Unranked - Beef (FOD)

Japan's total beef imports in 1999 reached a record 965,000 MT (carcass- weight basis), up 1 percent from the year before. The growth in import demand in 1999 was largely driven by continued strong HRI/HMR demand, particularly from fast food beef bowl chains, hamburger steaks at family restaurants, `yakiniku - Korean style barbecue' at Korean style barbecue chains and beef barbecue lunch box sold at takeout lunch box chains and convenience store chains, including inexpensive frozen beef parts like short plate, brisket and clod.

The U.S. is the largest foreign supplier of beef to Japan, accounting for 49 percent of total import volume in 1999, slightly above the import share of Australia. Imports of U.S. beef totaled 323,000 MT (product-weight basis), slightly above the level of 1998. Selective meat purchases by Japanese consumers, who are increasingly value-conscious in part due to the stagnant economy, drove demand for less-expensive beef parts that benefitted U.S. exporters. Beef market prospects in 2000 will hinge on the continued recovery of Japan's economy

Major local and Third Country Competitors: Japan
Australia

(1,000 Metric Tons - CWE)

	1998	1999	2000*
A. Total Market Size	1,612	1,630	1,642
B. Total Local Production	530	540	530
C. Total Exports	0	0	0

D. Total Imports	951	965	957
E. Imports from the U.S.	457	461	457

*USDA forecast
(The above statistics are unofficial estimates.)

3. Unranked - Frozen Vegetables (FOD)

Japan's frozen vegetable imports are growing at a steady rate. Improved technology continues to provide higher quality products; domestic production of fresh inputs declines. In 1999, total imports were valued at USD 843 million, up significantly from 1998. Imports from the U.S. are dominated by frozen potatoes and frozen sweet corn, but other frozen vegetables, such as frozen mixed vegetables should also do well. China is a strong price competitor, but quality problems constrain growth.

List of most promising subsectors within the sector, along with estimated 1999 total market size of each subsector (USD millions):

Frozen Potatoes USD 318
Frozen Sweet Corn USD 82
Frozen Mixed Vegetable USD 78

Major local and third-country competitors: Japan
China
Taiwan
New Zealand

(Millions of U.S. Dollars)	1997	1998	1999
A. Total market size	925	1001	1037
B. Total local production	200	195	194
C. Total exports	0	0	0
D. Total imports	725	806	843
E. Imports from the U.S.	299	330	324

4. Unranked - Pork (FOD)

Japanese pork imports in 1999 were at 850,000 MT (carcass weight basis), up 18 percent from 1998 due to strong demand for frozen pork, lower domestic supplies, and strong demand for chilled table pork. Imports of U.S. pork are forecast to rise 4 percent in 1999 to 166,000 MT (product-weight basis), but Danish imports are expected to exceed this volume at 169,000 MT due to strong demand for frozen parts. Competition in the chilled pork sector will intensify in 2000, though U.S. product is positioned to capture the leading market share of chilled imports. Overall imports in 2000 are expected to slightly fall due to softened demand from pork processors and households.

Major local and third-country competitors: Japan
Taiwan
Denmark

(1,000 Metric Tons—CWE basis)

	1998	1999	2000*
A. Total market size	2,196	2,236	2,196
B. Total local production	1,285	1,280	1,275
C. Total exports	0	0	0
D. Total imports	721	850	821
E. Imports from the U.S.	229	237	236

*USDA forecast

(The above statistics are unofficial estimates).

C. SIGNIFICANT INVESTMENT OPPORTUNITIES

Several years ago, the high cost of doing business in Japan, the strong yen, and a highly regulated market led many U.S. financial services firms to reduce their presence in the market. That trend has turned around since Japan initiated deregulation in the financial sector, effective as of April 1, 1998, deregulation has significantly liberalized financial services and is providing excellent investment opportunities for U.S. suppliers of financial services. Although the yen has not returned to the favorable levels of the “bubble” days, it is a significant contributing factor for very favorable investment opportunities. This is evident not only in the financial service sector, but also in all service industries and others that do not require heavy capital investment in factories or manufacturing facilities. U.S. software suppliers are continuing to find the investment climate optimal and are seeking appropriate opportunities. U.S. suppliers of services to these investors, including firms offering office design and interior renovation services for offices in older buildings, are experiencing increased sales opportunities. Japan's current credit crunch continues, and will lead to new opportunities for investment in the manufacturing sector. Depending upon the power of the yen, ongoing deregulation in various sectors of Japan's market

should spur U.S. and other foreign investment. The Government of Japan will liberalize the retail power sector over the next several years. Deregulation in this sector should create good opportunities for U.S. investment in facilities for independent power production.